

**REPORT TO THE  
JOINT LEGISLATIVE AUDIT  
AND REVIEW COMMISSION**

**FOR THE QUARTER  
JULY 1, 2004 TO SEPTEMBER 30, 2004**



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# Commonwealth of Virginia

**Walter J. Kucharski, Auditor**

**Auditor of Public Accounts**

**P.O. Box 1295**

**Richmond, Virginia 23218**

October 8, 2004

The Honorable Lacey E. Putney, Chairman  
and  
Members, Joint Legislative Audit and Review Commission  
General Assembly Building  
Capitol Square  
Richmond, Virginia 23219

This transmits our quarterly summary of reports issued for the period July 1, 2004 through September 30, 2004.

The *Executive Summary* includes reports that may be of special interest to the members of the Commission. We have included a report in the summary for the sole purpose of bringing to your attention matters of significance. These summaries do not include all findings within a report or all reports with findings.

The *Summary of Reports Issued* lists all reports released during the quarter and shows reports that have audit findings.

We will be happy to provide you, at your request, any reports in their entirety or you can find all reports listed in this document at our website <http://www.apa.state.va.us/reports.htm>. We welcome any comments concerning this report or its contents.

Sincerely,

Walter J. Kucharski  
Auditor of Public Accounts

WJK:whb

# **EXECUTIVE SUMMARY**

## **JAMESTOWN-YORKTOWN FOUNDATION AS OF JUNE 30, 2003**

### **Review and Update Internal Controls**

The Foundation is rapidly growing to meet the demands of the upcoming events, which will significantly increase the volume of activity and it will continue to increase over the next several years. These new demands on the Foundation come after a period of several years of budget reductions. Like most organizations, the Foundation trimmed administrative expenses and consolidated these operations to absorb the reductions.

With a smaller management staff, focus of operations tends to concentrate on program delivery and significant upcoming events. This management focus tends to not consider and focus on the supporting functions of an operation. Many of the basics such as accounting and purchasing appear to be obstacles to operations, since they do not have staff to respond to the changing demands. Further, shortcuts used to overcome budget reductions may not provide management with the proper controls to oversee and review operations and safeguard the assets within their responsibility.

Management should review and update the Foundation's internal control system to not only reflect its current operations, but provide the safeguards for the anticipated growth of the next several years. Undertaking this review and update will require consideration of how the Foundation grows and then how it will re-adjust after 2007.

## **NORFOLK STATE UNIVERSITY FOR THE YEAR ENDED JUNE 30, 2003**

### **Collect and Correct Accounts Receivables**

As of June 30, 2003, student tuition and fees account receivable balances, equaled \$6.8 million, or 6 percent of the University's annual operating budget. During fiscal year 2003, the balance grew by \$2.1 million. The University is failing to collect significant financial resources and has known of the problem since we first reported the problem in our fiscal year 2000 audit report.

Previous audit reports have cited the need to collect and correct account receivables as a significant accounting and internal control issue at the University. When we prepared our audit report for fiscal year 2002 audit in the spring of 2003, the University provided the auditors with a corrective action plan to collect and correct its receivables. The auditors reviewed the University's plan to address this issue, which included the resources to correct past problem and maintain current operations. The auditors concurred that if implemented the plan would address the University's problem; however, a year later, the University has not implemented the plan or committed the resources to correct the problem.

In the past five years, as shown in the table below, the various components of the accounts receivable balance have continued to grow. By not adequately addressing this issue in a timely manner, the University has lost revenues, spent time and resources attempting to bill and collect incorrect and erroneous balances and may have incurred liabilities to students and some third parties for not properly applying payments or refunding monies when a student drops out of school.

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Accounts receivable: Student tuition and fees	\$1,359,847	\$3,525,181	\$4,789,355	\$ 4,204,296	\$ 6,765,880
Less: Allowance for doubtful accounts	(690,835)	(1,110,188)	(1,559,628)	(2,107,110)	(2,429,218)
Accounts receivable: Write offs	538,232	186,238	549,497	2,078,507	1,297,091
Student account credit balances	(299,238)	(334,558)	(492,149)	(1,242,289)	(1,389,379)

\*The 2004 Student tuition and fees receivable data was not available at the issue date of this report.

While there are numerous reasons why the problem exists, it is important that University management commit to correcting the problem. It is clear that the University is capable of understanding the issues and developing a plan to address the problem. However, the University needs to follow through with the plan and implement it with the appropriate resources to correct the problem.

In addition, the University's Board of Visitors and management need to establish an oversight group to review and monitor the correction of the existing problem and to develop policies, procedures and follow through actions that will prevent this problem in the future. When approximately 90 percent of the student body receives some form of student financial assistance, it is important the University demonstrate that it can properly manage and apply these funds to individual student accounts.

#### **OFFICE OF THE GOVERNOR FOR THE YEAR ENDED JUNE 30, 2004**

As reported last year, the legislative appropriation provided in the Appropriation Act no longer reflects the funding used to operate these office. In the case of the Office of the Governor, the situation has existed for the past five years and increased during this period as shown in the table below.

##### Budget Analysis for Fiscal Years 2000- 2004

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Original budget	\$2,267,323	\$2,378,854	\$2,379,597	\$2,427,764	\$1,971,396
Final budget	\$3,116,338	\$3,055,171	\$3,721,386	\$3,783,643	\$3,443,546
Actual Expenses	\$3,103,208	\$3,050,441	\$3,694,344	\$3,739,769	\$3,442,112

Source: Commonwealth Accounting and Reporting System

None of the transfers or other adjustments obtained occurred outside of the authority granted the Governor and the Department of Planning and Budget in the Appropriation Act. However, in the case of the Office of the Governor, the amount of the legislative appropriation is \$1.9 million of the \$3.4 million expended in fiscal 2004.

Both the Senate Finance and House Appropriation Committees may wish to review this matter during the upcoming budgeting cycle.

## **PERSONAL PROPERTY TAX RELIEF SPECIAL REVIEW SEPTEMBER 2004**

We have completed our study of the Personal Property Tax Relief Act (the Act) as amended by Chapter 1 of the Act of Assembly 2004 General Assembly Special Session I and submit our report, "Personal Property Tax Relief Act Special Review."

The legislation introduces significant changes to the 1998 Act, which will reduce the Commonwealth's involvement in local government business processes; however this change will require a shift of roles and responsibilities. There are several issues that will impact localities. These changes include a shift of reimbursement payments from a calendar year to a fiscal year. The reimbursement amounts will reflect the locality's pro rata share of the total amount paid. The localities will need to set tax rates to comply with the new provisions of the statute and their fiscal needs.

To ensure a smooth implementation and transition of responsibility to localities, the Departments of Motor Vehicles and Taxation, and the Secretary of Finance should work closely with the Virginia Association of Counties and the Virginia Municipal League to identify and disseminate essential information including the need to comply with imposed deadlines within the statute. This includes establishing filing deadlines for tax year 2005 reimbursement requests and revising personal property tax billing procedures for current and delinquent tax notices. In addition, Taxation should continue providing localities with Schedule FED and other business schedules, which will assist localities in auditing personal property tax relief. Beginning with tax year 2006, localities will again assume full responsibility for compliance and enforcement of the personal property tax relief. Local assessing officials should continue to audit personal property tax relief to ensure taxpayers receive relief for qualified vehicles only.

## **VIRGINIA CIRCUIT COURTS STATEWIDE REPORT FOR THE PERIOD JULY 1, 2003 THROUGH JUNE 30, 2004**

During our audits of Clerks of Circuit Court for the fiscal year 2004, we identified the following six findings that we consider statewide issues that are common to several circuit courts:

- Properly reconcile bank account
- Properly manage accounts receivable
- Properly assess and record court fees and costs
- Improve receipting procedures
- Improve trust fund management
- Properly monitor and disburse liabilities

Statewide issues are those internal control findings or compliance issues that require that the Executive Secretary of the Supreme Court, as the circuit court administrator, to consider issuing new guidelines or providing training to help specific clerks' offices improve. In addition, the Executive Secretary should consider including these issues when conducting statewide training for all clerks' offices.

## **VIRGINIA INFORMATION TECHNOLOGIES AGENCY**

This report reviews the Virginia Information Technologies Agency (VITA) policies and procedures placed in operation as of April 1, 2004. We conducted our review using Statement on Auditing Standards No.70, Reports on the Processing of Transactions by Service Organizations, issued by the American Institute of Certified Public Accountants. This report should provide VITA customers, their independent auditors, and report users with sufficient information about VITA's internal control policies and procedures. If customers do not have effective controls, VITA's internal control policies and procedures may not compensate for such weaknesses.

We found:

As reported in Section III, VITA's policies and procedures are suitably designed and operating effectively to provide reasonable assurance that they achieve their specified control objectives as of April 1, 2004. The reader should evaluate this information only with a concurrent assessment of the customer's internal controls.

The 2003 General Assembly created VITA to consolidate and oversee the Commonwealth's information technology resources. The information system resources reside at VITA's data center or at VITA's client agency locations. Small agencies (with employees less than 100) have already transitioned over to VITA while medium and large agencies transition in upcoming months. Dependent on the applications running on particular equipment, VITA will own and operate the hardware. Most information technology workers employed by in-scope agencies have already or will transfer to the employment of VITA. One of the tenants of this endeavor is to increase security over the information system resources. Inherent with this transition is the necessity to create security standards and assignments of responsibilities for implementing and monitoring the effectiveness of these standards.

Although large agencies have yet to transition to VITA the following agencies use VITA's data center as a site to house their various servers: Virginia Employment Commission, Department of Social Services, Department of Taxation, and Virginia Retirement System. With the exception of Virginia Retirement System, none of the agencies has VITA handle their disaster recovery services for the servers. Agencies need to include their servers located at VITA in their own disaster recovery plans until such time that another arrangement with VITA is established.

We recommend that VITA improve and implement security standards for client agencies.



## **SUMMARY OF REPORTS ISSUED**

## **SUMMARY OF REPORTS ISSUED**

The following reports on audit were released by this Office during the period \*, 2004 through \*, 2004. Those reports which included findings in the area of internal controls or compliance are indicated by an (\*) asterisk.

### **State Agencies and Institutions**

#### **Judicial Branch**

Virginia Circuit Courts Statewide Report for the period July 1, 2003 through June 30, 2004\*

### **Executive Departments**

#### **Executive Offices**

Office of the Attorney General and Department of Law for the year ended June 30, 2004\*

Office of the Governor for the year ended June 30, 2004

Office of the Lieutenant Governor for the year ended June 30, 2004

#### **Commerce and Trade**

Virginia Board of Accountancy for the year ended June 30, 2003

Tobacco Indemnification and Community Revitalization Commission as of and for the year ended June 30, 2004

#### **Education**

Jamestown-Yorktown Foundation as of June 30, 2003\*

#### **Colleges and Universities**

Christopher Newport University for the year ended June 30, 2003\*

College of William and Mary in Virginia for the year ended June 30, 2003

College of William and Mary Intercollegiate Athletic Programs for the year ended June 30, 2003

Norfolk State University for the year ended June 30, 2003\*

Norfolk State University Intercollegiate Athletic Programs for the year ended June 30, 2003

Old Dominion University Intercollegiate Athletic Programs for the year ended June 30, 2003

George Mason University for the year ended June 30, 2003\*

George Mason University Intercollegiate Athletic Programs for the year ended June 30, 2003

Radford University for the year ended June 30, 2003

Radford University Intercollegiate Athletic Programs for the year ended June 30, 2003\*

Virginia Community College System for the year ended June 30, 2003\*

Virginia Military Institute for the year ended June 30, 2003

Virginia Military Institute Intercollegiate Athletic Programs for the year ended June 30, 2003

## **Technology**

Virginia Information Technologies Agency Service Organization Review  
Report on Policies and Procedures Placed in Operation and Tests of Operating Effectiveness  
as of April 1, 2004\*

## **Special Reports**

Report to the Joint Legislative Audit and Review Commission for the quarter April 1, 2004 through June 30, 2004  
Personal Property Tax Relief Special Review dated September 2004\*

## **Clerks of the Circuit Courts**

### **Cities:**

City of Alexandria Clerk of the Circuit Court for the period January 1, 2003 through March 31, 2004  
City of Charlottesville Clerk of the Circuit Court for the period April 1, 2003 through March 31, 2004  
City of Martinsville Clerk of the Circuit Court for the period April 1, 2003 through March 31, 2004

### **Counties:**

County of Carroll Clerk of the Circuit Court for the period April 1, 2003 through March 31, 2004  
County of Bland Clerk of the Circuit Court for the period January 1, 2003 through December 31, 2004  
County of Clarke Clerk of the Circuit Court for the period January 1, 2003 through March 31, 2004  
County of Halifax Clerk of the Circuit Court for the period April 1, 2003 through March 31, 2004  
County of Highland Clerk of the Circuit Court for the period April 1, 2003 through March 31, 2004  
County of Loudoun Clerk of the Circuit Court for the period October 1, 2002 through March 31, 2004\*  
County of Middlesex Clerk of the Circuit Court for the period April 1, 2003 through March 31, 2004  
County of Northampton Clerk of the Circuit Court for the period April 1, 2003 through March 31, 2004\*  
County of Northumberland Clerk of the Circuit Court for the period April 1, 2003 through March 31, 2004\*  
County of Prince George Clerk of the Circuit Court for the period April 1, 2003 through March 31, 2004  
County of Richmond Clerk of the Circuit Court for the period April 1, 2003 through March 31, 2004  
County of Smyth Clerk of the Circuit Court for the period April 1, 2003 through March 31, 2004\*  
County of York Clerk of the Circuit Court for the period October 1, 2002 through March 31, 2004

## **Treasurer Turnover**

County of Albemarle Treasurer Turnover Audit for the period July 1, 2003 through June 30, 2004